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Relationship With CIA Aide Gave Credibility To Arms Seller

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Back in the mid-1970s, Theodore C. Shackley, then the No. 2 man in the Central Intelligence Agency's clandestine service, was busy cultivating one of the agency's former operatives, Edwin P. Wilson, as a back-channel intelligence source to provide information to the CIA from his overseas business contacts, particularly in the Mideast.

Wilson later was accused of supplying explosives, weapons and training to Libyan terrorists and of plotting an assassination in 1976 on behalf of radical Libyan dictator Col. Muammar Qaddafi. Now, Shackley, who is retired from the CIA, is trying to put distance between himself and Wilson. He has told federal investigators that at the time he had no knowledge of what Wilson was up to in Libya, but when he found out he and other top agency officials promptly reported them to the FBI.

The expanding investigation of Wilson and his one-time partner, Francis E. Terpil, which first surfaced in 1977, provides revealing glimpses into the netherworld of international terrorism and the merchants who supply its armaments. This world exists on the fringes of the intelligence agencies of major powers and many of its inhabitants—former intelligence agents themselves—engage, federal officials say, in illegal technological espionage and export.

The Wilson-Terpil case has repeatedly raised the question of how much and how soon the CIA knew about their Libyan and other operations in support of terrorism. It also raises questions about what the CIA has done and is doing to detect and discourage such unofficial, free-lance operations.

It is not uncommon for the CIA to attempt to debrief American businessmen, journalists and other travelers abroad as sources of information. The relationship between Shackley and Wilson, however, is considerably deeper and more complex than most.

The informal intelligence channel that Shackley maintained with Wilson, along with a longstanding friendship between the men, created the appearance of CIA approval of Wilson's alleged illegal activities. This aura of respectability enabled Wilson to convince associates and clients that his arms exports and commando training were approved by high agency officials.

Prosecutors, who obtained grand jury indictments against Wilson in 1980, may seek to broaden their indictment this month. They say that Shackley is not a target of the ongoing grand jury investigation. The federal officials have also concluded "absolutely" that the CIA as an institution did not know about, condone or officially sanction the alleged illegal activities.

Wilson has denied wrongdoing and lives as a fugitive in the Libyan capital of Tripoli.

The conclusions reached by the federal prosecutors about the CIA's role and the relationship between Shackley and Wilson provide the best explanation to date of the CIA's knowledge of and response to the alleged illegal activities of its former agents in Libya.

The relationship between the two men was both social and professional. It extended from arrangements for Shackley's daughter to keep a horse at Wilson's 2,400-acre Fauquier County farm to meetings at Shackley's home and other locations where Wilson provided a steady stream of intelligence picked up from worldwide business dealings. Wilson's wife

and commerce. Wilson's network of business contacts and foreign government procurement officials provided Shackley with important inside information from Egypt, Iran, Turkey and perhaps Libya.

Such debriefings are usually handled by relatively low-level officials in the agency's Domestic Collection Division.

In contrast, Shackley's intelligence-gathering relationship with Wilson was withheld from President Carter's director of central intelligence, Adm. Stansfield Turner, when he investigated Wilson's contact with CIA agents and officials in 1977, according to a knowledgeable source.

Shackley contends that he fully reported his relationship with Wilson and that he was a victim of Wilson's manipulation, according to one source. Shackley thinks that his contact with Wilson was consistent with his contacts with a number of people outside the agency whom he considered knowledgeable about foreign affairs, the source said.

In this sense, Shackley "collected" friends with non-CIA perspectives so he wouldn't become a "captive of the system," the source added. Shackley denies, the source said, that he was trying to run a "hip pocket" intelligence operation through Wilson and says that Wilson lied to him about his activities in Libya.